

Preliminary Report:
2018 Tax Preference Performance Reviews

Aircraft for Air Ambulances

Legislative Auditor’s Conclusion:

The Legislature should clarify whether the preferences are intended solely for tax relief. If so, the Legislature should remove the expiration dates.

July 2018

Tax exemptions for nonprofits that own aircraft used exclusively for emergency medical transportation

An aircraft excise tax exemption and a property tax exemption are provided for nonprofit 501(c)(3) organizations that own aircraft used exclusively for emergency medical transportation.

The preferences are scheduled to expire January 1, 2020.

Estimated Biennial Beneficiary Savings

\$0

Tax Type

Aircraft Excise Tax, Property Tax

RCW 82.48.100(8), 84.36.575

Applicable Statutes

Inferred public policy objective met

The Legislature did not state a public policy objective for either preference when they were passed in 2010. JLARC staff infer an objective based on testimony to the Legislature.

Objective (inferred)	Results
<p>Provide tax relief to nonprofit organizations that own aircraft used exclusively for emergency medical transportation.</p>	<p>Met. The preferences provided tax relief to a nonprofit air ambulance service provider for six years. No organizations currently qualify for the preferences, but they could provide tax relief to qualifying nonprofits in the future.</p>

Legislative Auditor's Recommendation: Continue and clarify (structural purpose)

The Legislature should clarify the two preferences to add performance statements, specify public policy objectives, and eliminate expiration dates.

More information is available on the Recommendations Tab.

Commissioners' Recommendation

Available October 2018

REVIEW DETAILS

1. What are the preferences?

Nonprofit air ambulance service providers are exempt from aircraft excise tax and property tax

JLARC staff infer the public policy objective for these preferences is to provide tax relief

The Legislature did not state a public policy objective for either of the preferences. The preferences were passed before the Legislature required a performance statement for new preferences.

Based on testimony to the Legislature, JLARC staff infer the preferences were enacted to provide tax relief to nonprofit organizations that own aircraft used exclusively to provide emergency medical transportation services.

Nonprofit air ambulance service providers qualify

Nonprofit 501(c)(3) exempt organizations that **own aircraft used exclusively for emergency medical transportation** are exempt from the aircraft excise tax and property tax. These air ambulances are specially equipped to provide emergency medical services before and during transport.

The property tax exemption must benefit the nonprofit organization that owns the aircraft.

Qualifying nonprofits must:

- Report use of the aircraft excise tax exemption annually to the Washington State Department of Transportation's Aviation Division.
- Apply annually to the Department of Revenue for the property tax exemption.

Preferences scheduled to expire January 1, 2020

Both preferences took effect July 13, 2010, and are scheduled to expire January 1, 2020.

REVIEW DETAILS

2. Other relevant background

Aircraft used in Washington generally subject to either aircraft excise tax or property tax

Most aircraft owners are required to register with the Washington State Department of Transportation's (WSDOT) Aviation Division each calendar year an aircraft operates or is based in the state.

Aircraft are subject annually to either **aircraft excise tax** or **property tax**, but not both.

Aircraft excise tax

Owners of general aviation aircraft must register with WSDOT's Aviation Division and pay aircraft excise tax. General aviation aircraft do not include any aircraft owned by the government or by commercial airlines. If aircraft excise tax is paid, the aircraft is exempt from property tax.

The aircraft excise tax is collected annually by WSDOT and the amount due is determined by the aircraft type.

Exhibit 2.1: Aircraft excise tax registration fees determined by aircraft type

Type of Aircraft	Fee
Home built	\$ 20
Lighter than air	\$ 20
Sailplane	\$ 20
Single engine fixed wing	\$ 50
Small multi-engine fixed wing	\$ 65
Helicopter	\$ 75
Large multi-engine fixed wing	\$ 80
Turboprop multi-engine fixed wing	\$100
Turbojet multi-engine fixed wing	\$125

Source: JLARC staff analysis of RCW 82.48.030(1)(a).

Property tax

To be subject to property tax, aircraft must be:

- Exempt from aircraft excise tax.
- Operated by an airplane company that transports people or property for compensation.

Property tax rates are expressed in dollars per \$1,000 of assessed value and vary depending on the locality. Local county assessors set the levy rate based on the taxing district's budget request, the total assessed value of the taxing district, and any applicable levy limits. The tax rates for personal property and real property are the same in each taxing district.

Five air ambulance service providers currently operate in Washington, but none qualify for the preferences

The Department of Health certifies and licenses air ambulance service providers in Washington. As of January 2018, there were five licensed providers in the state. None of the current providers qualify for the preferences because they are not nonprofit organizations. Current providers include:

- Airlift Northwest
- Island Air Ambulance
- Life Flight Network
- MedFlight One
- REACH Air Medical Services

REVIEW DETAILS

3. Inferred objective met, but preferences not currently used

Preferences provided tax relief until 2016, but no current beneficiaries or revenue impacts.

The Legislature did not state a public policy objective for either preference. The preferences were enacted before the Legislature required a performance statement for new preferences.

Inferred objective: provide tax relief to nonprofit air ambulance service providers

JLARC staff infer the objective for both preferences was to provide tax relief to nonprofit organizations that own aircraft used exclusively for emergency medical transportation.

The prime sponsor of the preferences testified that the aircraft excise tax and property tax exemptions addressed a specific situation with a nonprofit air ambulance provider. In 2007, the Department of Revenue began assessing property tax on aircraft owned by Inland Northwest Medical Services (INHS) and its subsidiary, Northwest Medstar. This nonprofit emergency air ambulance provider had not previously been assessed property tax.

JLARC staff infer that the objective of the preferences was to provide immediate aircraft excise and property tax relief for nonprofits that owned aircraft used exclusively for medical transport, and to continue to provide tax relief for any similar situations in the future.

Inferred objective met, but preferences not currently used

The preferences achieve the inferred objective by eliminating aircraft excise and property taxation for nonprofits that own aircraft used exclusively for emergency medical transportation.

INHS/Northwest Medstar is the only nonprofit organization to apply for the property tax exemption since the preferences were established in 2010.

According to the Washington State Department of Transportation's Aviation Division, no nonprofit has reported using the aircraft excise tax exemption.

In March 2016, INHS/Northwest Medstar was acquired by Life Flight Network, a for-profit business. Neither preference has been used since then. However, the preferences continue to provide the potential for tax relief if a qualifying nonprofit air ambulance service provider begins operating in Washington.

No beneficiaries or revenue impacts for preferences

There are currently no qualifying nonprofit air ambulance service providers licensed in Washington. The preferences have no revenue impact at this time.

REVIEW DETAILS

4. No similar preferences in neighboring states

Idaho and Oregon do not have similar aircraft tax preferences

JLARC staff reviewed laws in Idaho and Oregon to determine if similar tax preferences are provided in neighboring states.

Idaho

In Idaho, aircraft owners must register annually with the Idaho Transportation Department Division of Aeronautics. The registration fees are assessed at a rate of 3 cents per pound of maximum certified weight. Fees range from \$20 to \$600.

Aircraft owners who do not pay the registration fee are subject to personal property tax in lieu of the fee. There are no exemptions for aircraft used for medical transportation in general, or specifically for nonprofits that own aircraft used for emergency medical transportation.

Oregon

In Oregon, aircraft owners must register annually with the Oregon Department of Aviation. Similar to Washington, the registration fee is fixed and based on the type of aircraft. Fees range from \$55 to \$700. There is no exemption for nonprofits that own aircraft used for emergency medical transportation.

Oregon does not impose property tax on aircraft.

REVIEW DETAILS

5. Applicable statutes

RCW 82.48.100, RCW 84.36.575

Aircraft Excise Tax

RCW 82.48.100

Exempt aircraft. (Effective until January 1, 2020.)

This chapter does not apply to:

(1) Aircraft owned by and used exclusively in the service of any government or any political subdivision thereof, including the government of the United States, any state, territory, or possession of the United States, or the District of Columbia, which are not engaged in carrying persons or property for commercial purposes;

(2) Aircraft registered under the laws of a foreign country;

(3) Aircraft that are owned by a nonresident and registered in another state, if the aircraft remains in this state or is based in this state, or both, for a period less than ninety days;

(4)(a) Aircraft engaged principally in commercial flying that constitutes interstate or foreign commerce, except as provided in (b) of this subsection.

(b) The exemption provided by (a) of this subsection does not apply to aircraft engaged principally in commercial flying that constitutes interstate or foreign commerce when such aircraft will be in this state exclusively for the purpose of continual storage of not less than one full calendar year;

(5) Aircraft owned by the manufacturer thereof while being operated for test or experimental purposes, or for the purpose of training crews for purchasers of the aircraft;

(6) Aircraft being held for sale, exchange, delivery, test, or demonstration purposes solely as stock in trade of an aircraft dealer licensed under Title [14](#) RCW;

(7) Aircraft owned by a nonresident of this state if the aircraft is kept at an airport in this state and that airport is jointly owned or operated by a municipal corporation or other governmental entity of this state and a municipal corporation or other governmental entity of another state, and the owner or operator of the aircraft provides the department with proof that the owner or operator has paid all taxes, license fees, and registration fees required by the state in which the owner or operator resides; and

(8) Aircraft that are: (a) Owned by a nonprofit organization that is exempt from federal income taxation under 26 U.S.C. Sec. 501(c)(3) of the federal internal revenue code; and (b) exclusively used to provide emergency medical transportation services.

Property tax

RCW 84.36.575

Nonprofit organizations - Aircraft. (Expires January 1, 2020.)

An aircraft is exempt from taxation, if:

- (1) The aircraft is owned by a nonprofit organization that is exempt from federal income taxation under 26 U.S.C. Sec. 501(c)(3);
- (2) The aircraft is used to provide emergency medical transportation services; and
- (3) The exemption inures to the benefit of the nonprofit organization that owns the aircraft.

RECOMMENDATIONS & AGENCY RESPONSE

Legislative Auditor's Recommendation

Legislative Auditor recommends continuing and clarifying the two preferences (structural purpose)

The Legislature should continue and clarify the two preferences to:

- **Add performance statements that specify public policy objectives.** The preferences were passed before the Legislature required a performance statement for new preferences. JLARC staff infer the preferences were intended to provide tax relief to nonprofit air ambulance service providers.

- **Eliminate expiration dates.** Consider exempting the preferences from the statutory requirement for an expiration date. While no air ambulance service providers currently qualify to use the preferences, they continue to provide the potential for tax relief if qualifying nonprofit air ambulance service providers begin operating in Washington.

Legislation Required: Yes.

Fiscal Impact: None.

RECOMMENDATIONS & AGENCY RESPONSE

Letter from Commission Chair

Available October 2018

RECOMMENDATIONS & AGENCY RESPONSE

Commissioners' Recommendation

Available October 2018

RECOMMENDATIONS & AGENCY RESPONSE

Agency Response

If applicable, available October 2018

Washington Joint Legislative Audit and Review Committee

106 11th Avenue SW, Suite 2500

PO Box 40910

Olympia, WA 98504-0910

Phone: 360-786-5171

Fax: 360-786-5180

Email: JLARC@leg.wa.gov